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SENSITIVE
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STATE FOR EAP DAS MARCIEL, P, D, H
STATE ALSO FOR EAP/MLS, EEB/IFD/OMA - D. FREUDENWALD
TREASURY FOR ANDREW JEWEL

E.O. 12958: N/A
TAGS: EFIN PREL ECON CB
SUBJECT: CAMBODIA EXPLORING FORWARD MOVEMENT ON DEBT

REF: A. PHNOM PENH 372
1B. PHNOM PENH 143
1C. 07 PHNOM PENH 1484
1D. 07 PHNOM PENH 868
1E. 07 PHNOM PENH 670
1F. 07 STATE 19310

SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISSEMINATION.

11. (SBU) SUMMARY: The Ambassador called on Minister of Economy and Finance Keat Chhon June 12 to raise the bilateral debt in the wake of Prime Minister Hun Sen's positive statements on debt repayment in a meeting with the U.S. ASEAN Business Council (Ref A). Minister Keat cautioned that Cambodia would soon have a caretaker government in advance of its July 27 parliamentary election but that by September the new Royal Government of Cambodia (RGC) should be prepared to explore the issue again. Embassy believes that any Congressional assurance on recycling a portion of Cambodia's debt would create an environment that allows the RGC to explore going forward, possibly on a fast track for this year. Depending on how the issue is framed, Cambodia could contemplate concessions beyond its previously stated position. END SUMMARY.

12. (SBU) The Ambassador accompanied by DCM was literally given a red carpet reception by Minister Keat, who was clearly pleased to discuss the debt issue. The Minister noted that the caretaker government would begin at the end of June and last as long as 60 days after the July election, until September 27. Thus, it would be difficult to make any progress on the debt this summer. (NOTE: MOEF Secretary of State Aun Porn Moniroth later told DCM there could be a new government by September 15. END NOTE.) Minister Keat indicated that he thought the new government could explore new options on the debt within a short time after that. The Ambassador reiterated past statements (Ref A) that the RGC should honor its debt and that there could be no discussion on debt recycling until after the RGC had signed a debt repayment agreement along the lines proposed in 2006 (Ref F). However, the Ambassador noted that in his most recent visit to Washington, some members of Congress had expressed strong interest in resolving the Cambodian debt problem and were possibly considering issuing a non-binding Congressional statement on the subject that would include reference to debt recycling. The Ambassador asked the Minister what his views were on this potential development.

RGC: A Step Forward

13. (SBU) Minister Keat warmly welcomed this proposal and turned to his lead debt negotiator, Aun Porn Moniroth, to

elaborate. Aun Porn Moniroth said this would be another step forward in terms of trying to facilitate a resolution to this issue. For the Cambodians, signing two agreements (repayment and recycling) back-to-back would be best, but any Congressional assurance would be a big gesture by the U.S. side and would help the RGC explain the debt agreement to its National Assembly and the Palace during any ratification process. Aun Porn Moniroth added that the RGC would not worry about penalties and would be much more willing to pay the standard three percent interest on arrears since 1995 if it had a good sense that a debt swap would follow and the money would support the development of Cambodia.

¶4. (SBU) COMMENT: Since the U.S. ASEAN Business Council raised Congressional interest in the Cambodian debt last May (Ref A), the Cambodian government has been more attentive to our requests to focus again on the bilateral debt. We view Aun Porn Moniroth's attitude to be very supportive, compared to past interactions, when he has been very cool to our urging to discuss the bilateral debt agreement.

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